



## Important information regarding the implementation of Cost Basis reporting

The Emergency Economic Stabilization Act of 2008 [HR 1424] includes new tax reporting rules that will change the information ProFunds reports on Form 1099-B for any sale of mutual fund shares acquired after January 1, 2012. The law expands the information reported to the Internal Revenue Service (IRS) and shareholders to include cost basis for shares sold and whether the holding period for the shares sold was short-term or long-term.

We have compiled the following Frequently Asked Questions to help explain how these new regulations may affect you. For purposes of this topic, “redemption” or “sell” refers to both a liquidation of shares, as well as an exchange from a non money market fund into another fund.

<b>What is cost basis?</b>	<p>Generally, cost basis is the price you paid for your mutual fund shares, adjusted for reinvested dividends and capital gains distributed by the Fund. When a mutual fund share is sold, the “cost” of that share is subtracted from the selling price. If the “cost” is less than the selling price, the result is a capital gain. If the cost is greater than the selling price, the result is a capital loss. Capital gains and losses from the sale of your mutual fund shares must be reported to the IRS for tax purposes.</p>
<b>What’s changing in 2012?</b>	<p>Beginning for tax year 2012, ProFunds will begin providing two separate cost basis calculations for most taxable accounts:</p> <ul style="list-style-type: none"><li>• For <b>Non-Covered Shares</b>, those shares acquired prior to January 1, 2012, ProFunds will continue to provide average cost information for eligible accounts until those shares are redeemed. The Statement of Average Cost is provided as a service to assist you in preparing your tax return. ProFunds does not currently, and will not in the future, provide this information to the IRS. You may use this information to prepare your annual tax return or you may calculate your cost basis using another IRS approved method.</li><li>• For <b>Covered Shares</b>, that is, shares acquired (including through exchanges) on or after January 1, 2012, investors will have the opportunity to choose which method ProFunds uses to calculate cost basis or use the ProFunds default method – Average Cost. ProFunds will report the cost basis information for shares sold on Form 1099-B. This information will also be provided to the IRS and the IRS requires that this information be used in preparation of your annual tax return.</li></ul> <p>In the past, ProFunds has only provided Average Cost information. Going forward, for Covered Shares, ProFunds has enhanced our systems to allow you the opportunity to select the cost basis calculation method that best suits your tax situation.</p> <p>The rules also require ProFunds to adjust cost basis to reflect the purchase of shares 30 days before and/or after the sale of that identical fund within the same account number. This type of transaction is referred to as a “Wash Sale.” Shareholders should discuss the impact of Wash Sales with their financial professional or tax advisor.</p>

<p><b>What is meant by “Covered Shares” and “Non-Covered Shares”?</b></p>	<p>Beginning in 2012, the IRS will apply different treatment to mutual fund shares that are sold depending on when the shares were acquired. Shares will be classified as “Covered” or “Non-Covered.”</p> <p><b>Covered Shares</b> - Shares acquired (including any exchanges made into a fund) after the effective date of January 1, 2012 and subsequently sold.</p> <p><b>Non-Covered Shares</b> - Shares acquired prior to the effective date, regardless of when they are sold or exchanged.</p> <p><b>Note:</b> Shares purchased with the proceeds from the sale of non-covered shares after January 1, 2012 (such as in the case of an exchange), will be considered “Covered Shares” as they were acquired after January 1, 2012.</p>
<p><b>How do the new reporting requirements affect tax reporting for shares purchased prior to the effective date of January 1, 2012?</b></p>	<p>They don’t. In the past, as a courtesy, ProFunds has provided a “Statement of Average Cost” to assist shareholders in the accurate preparation of tax filings. This information has not previously been reported to the IRS.</p> <p>For tax year 2011, ProFunds will continue to provide average cost information to our shareholders as in previous years. In February 2012, eligible account holders will receive a Statement of Average Cost for redemptions transacted in their taxable account.</p> <p>As always, the shareholder is responsible for accurately reporting gains and losses that result from the sale of mutual fund shares.</p>
<p><b>What types of accounts are affected by this new legislation?</b></p>	<p>Generally, the new rules apply to those accounts that currently receive Form 1099-B tax reporting such as individual, joint, partnership, trust, and UGMA/UTMA registrations. “S” Corporations are also covered by the new rules. Retirement accounts, shares of a money market fund and “C” Corporations are not subject to the new reporting requirements.</p>
<p><b>What are “standing instructions”?</b></p>	<p>Each fund within a shareholder account, except Money Market ProFund*, will list “standing instructions”, for the calculation of cost basis. These standing instructions will be used to calculate cost basis of shares redeemed unless other instructions are received prior to the settlement of the redemption.</p> <p>Shareholders will have the opportunity to choose standing instructions for the funds within their account. The ProFunds default methodology of Average Cost will be applied to your account if no election is made.</p> <p>*Shares of money market funds are not subject to the reporting requirements.</p>
<p><b>Can I change my standing instructions once I select them?</b></p>	<p>Yes, the standing instructions listed on your account can be changed at any time.</p> <p><i>It is important to note that shareholders wishing to change their method of calculation from Average Cost to another method may do so prior to the settlement of the sale of Covered Shares. Once a redemption is executed using Average Cost, a shareholder can only change the calculation method used for shares purchased after the date of the redemption.</i></p>

	<p><i>In addition, after January 1, 2012, a shareholder wishing to revoke or change their cost basis from or to Average Cost must do so in writing.</i></p>
<p><b>Can I use a method different than my current standing instructions for redemptions of covered shares?</b></p>	<p>If you have not made a redemption of Covered Shares in the past <b>OR</b> your current election is not Average Cost, the answer is <b>Yes</b>. You have the opportunity to request a cost basis method for a specific redemption that is different from the standing instructions listed on your account. The cost basis election must be made before the settlement of the share redemption.</p> <p>If the standing instructions for the fund you are redeeming are Average Cost <b>AND</b> you have placed a redemption of Covered Shares in the past, any change of method will only apply to future shares purchased. For this reason, if you wish to use a method other than Average Cost, it is important that you provide ProFunds with your election prior to redeeming any covered shares.</p>
<p><b>What cost basis methods can be chosen for Covered Shares?</b></p>	<p>ProFunds will use the <b>Average Cost</b> method to calculate gains and losses from the sale of your mutual fund shares unless you select another method.</p> <p>It is important to note that shareholders wishing to change their method of calculation from Average Cost to another method may do so prior to the settlement of the sale of Covered Shares. Once a redemption of covered shares is executed using Average Cost, a shareholder can only change the calculation method used for shares purchased after the date of the redemption.</p> <p>Other basis methods available for you to select for your account include:</p> <ul style="list-style-type: none"> <li>• <b>First In, First Out (FIFO)</b> – The first shares purchased are the first shares sold</li> <li>• <b>Last In, First Out (LIFO)</b> – The most recent shares purchased are sold first</li> <li>• <b>High Cost, First Out (HIFO)</b> – Shares with the highest cost are sold first</li> <li>• <b>Low Cost, First Out (LOFO)</b> – Shares with the lowest cost are sold first</li> <li>• <b>High Cost, Long Term</b> – Shares with the highest cost held for more than 12 months are sold first</li> <li>• <b>High Cost, Short Term</b> – Shares with the highest cost held less than 12 months are sold first</li> <li>• <b>Low Cost, Long Term</b> – Shares with the lowest cost held more than 12 months are sold first</li> <li>• <b>Low Cost, Short Term</b> – Shares with the lowest cost held less than 12 months are sold first</li> <li>• <b>Specific Share ID</b> – Shares to be sold are specified by the investor at the time the redemption is placed. Specific Share ID cannot be pre-selected as a default method, and is available at the time of the redemption by calling our Shareholder Services team.</li> </ul>
<p><b>What cost basis method does ProFunds recommend?</b></p>	<p>Every investor's situation is different. While ProFunds is required to designate a default calculation method, which we have chosen to be Average Cost, this should not be interpreted as a recommendation. Please consult with your qualified tax advisor or financial professional to discuss which calculation method may be most appropriate for your situation.</p>

<p><b>How can I elect a cost basis method?</b></p>	<p>Between December 5 and December 31, 2011, you may make your default/account standing instructions cost basis election by:</p> <ul style="list-style-type: none"> <li>• Calling our Shareholder Services Team toll-free at 888.776.3637</li> </ul> <p style="text-align: center;"><b>Or</b></p> <ul style="list-style-type: none"> <li>• Completing a Cost Basis Election Form and mailing it to ProFunds at the address indicated on the form.</li> </ul> <p>Beginning January 1, 2012, you may make your cost basis election by:</p> <ul style="list-style-type: none"> <li>• Calling our Shareholder Services Team toll-free at 888.776.3637 if you are not changing to or from Average Cost</li> </ul> <p style="text-align: center;"><b>Or</b></p> <ul style="list-style-type: none"> <li>• Completing a Cost Basis Election Form and mailing it to ProFunds at the address indicated on the form. After January 1, 2012, a shareholder wishing to revoke or change their cost basis from or to Average Cost must do so in writing.</li> </ul>
<p><b>What happens if I do not elect a cost basis method for my standing instructions?</b></p>	<p>On January 1, 2012, any ProFund account that does not have standing instructions will have the ProFunds default methodology “Average Cost” added as standing instructions.</p> <p>You may change these instructions by completing a Cost Basis Election Form and mailing it to ProFunds at the address indicated on the form.</p>
<p><b>Where can I obtain more information?</b></p>	<p>As with all tax matters, every shareholder’s situation is different. ProFunds is happy to discuss your account options with you but is not able to provide specific tax advice. We encourage you to consult with your financial advisor or qualified tax advisor with questions about your specific situation.</p> <p>More information about the legislation and subsequent tax rule changes can be obtained by contacting the IRS or visiting IRS.gov. The IRS has a helpful, “Cost Basis Reporting Overview and FAQs” that can be viewed at:</p> <p><a href="http://www.irs.gov/taxpros/article/0,,id=237099,00.html">http://www.irs.gov/taxpros/article/0,,id=237099,00.html</a></p> <p>We will be adding information to our website at profunds.com soon, including instructions on how to change your cost basis calculation default methodology.</p>

Trading shares of ProFunds will also generate tax consequences and transaction expenses. The above material is not intended to be tax advice. Tax consequences may vary by individual taxpayer. Please consult your tax professional or financial adviser for more information with regard to your specific situation.

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